



**STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM**
(An Enterprise Fund of the State of Alaska)

Financial Statements

June 30, 2000

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

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Independent Auditors' Report

State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska:

We have audited the accompanying balance sheets of the State of Alaska International Airport System (An Enterprise Fund of the State of Alaska) (System) as of June 30, 2000 and 1999 and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the State of Alaska International Airport System Enterprise Fund and are not intended to present fairly the financial position of the State of Alaska and the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Alaska International Airport System (An Enterprise Fund of the State of Alaska) as of June 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.



State of Alaska Department of Transportation
and Public Facilities
Juneau, Alaska

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2000 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

KPMG LLP

September 29, 2000

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Balance Sheets

June 30, 2000 and 1999

Assets	2000	1999
Cash in banks and State Treasury	\$ 13,822,724	14,944,478
Investments	72,940,216	69,442,593
Accounts receivable, less allowance for doubtful accounts	6,093,911	6,517,237
Federal grants receivable	1,747,854	5,431,647
Accrued interest receivable	268,817	55,370
Total current assets	<u>94,873,522</u>	<u>96,391,325</u>
Restricted cash and investments:		
Repair and replacement account	500,000	549,846
Terminal redevelopment fund	169,288,760	176,148,641
Revenue bond redemption fund:		
Bond interest	1,032,145	990,488
Bond principal	<u>1,135,000</u>	<u>3,210,000</u>
	171,955,905	180,898,975
Property and equipment, net of accumulated depreciation	<u>380,512,882</u>	<u>344,276,700</u>
Total assets	<u>\$ 647,342,309</u>	<u>621,567,000</u>
Liabilities and Fund Equity		
Accounts payable	\$ 1,195,456	1,222,142
Unearned revenue	2,343,589	3,298,384
Due to State of Alaska General Fund	19,965,304	16,207,168
Total liabilities payable from restricted assets:		
Accrued interest	3,063,898	4,534,315
Revenue bonds	<u>1,135,000</u>	<u>3,210,000</u>
Total current liabilities	<u>27,703,247</u>	<u>28,472,009</u>
Revenue bonds payable, less current portion	<u>226,640,786</u>	<u>202,968,453</u>
Total liabilities	<u>254,344,033</u>	<u>231,440,462</u>
Fund equity:		
Contributions, less accumulated amortization of \$102,653,451 and \$96,086,780 in 2000 and 1999 respectively.	121,497,548	123,814,435
Retained earnings:		
Reserves:		
Terminal redevelopment reserve	6,348,656	3,023,311
Repair and replacement reserve	500,000	500,000
Bond redemption reserve	—	102,647
Unreserved	<u>264,652,072</u>	<u>262,686,145</u>
Total fund equity	<u>392,998,276</u>	<u>390,126,538</u>
Total liabilities and fund equity	<u>\$ 647,342,309</u>	<u>621,567,000</u>

See accompanying notes to financial statements.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Statements of Revenues, Expenses and Changes in Retained Earnings
For the Years Ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating revenues:		
Airfield operations	\$ 33,017,726	29,422,195
Concession fees	8,400,382	8,135,548
Terminal rents	7,530,993	7,498,552
Vehicle parking fees	4,731,483	4,139,959
Land rental fees	2,788,428	2,799,814
Other	247,574	188,135
	<u>56,716,586</u>	<u>52,184,203</u>
Operating expenses:		
Field and equipment maintenance	10,235,078	9,262,186
Building maintenance	7,092,847	7,089,682
Safety	7,643,984	7,909,834
Administration	6,470,620	5,656,671
Custodial	3,907,057	4,056,320
Operations	2,010,820	1,787,044
Vehicle parking and curbside services	1,864,489	1,628,804
Environmental expenses	2,465,073	2,807,731
Risk management	719,688	702,920
Bad debt	62,820	—
	<u>42,472,476</u>	<u>40,901,192</u>
Operating income before depreciation and amortization expense	14,244,110	11,283,011
Depreciation and amortization expense:		
On assets acquired with International Airport revenue funds	11,927,959	11,636,360
On assets acquired with capital grants	6,566,669	5,769,887
	<u>18,494,628</u>	<u>17,406,247</u>
Loss from operations	(4,250,518)	(6,123,236)
Nonoperating revenue (expense):		
Investment income	4,427,079	4,670,978
Interest expense	(1,554,605)	(2,388,349)
	<u>2,872,474</u>	<u>2,282,629</u>
Net loss	(1,378,044)	(3,840,607)
Transfer of depreciation on assets acquired through capital grants to contributed capital account	6,566,669	5,769,887
Net income to retained earnings	5,188,625	1,929,280
Retained earnings – beginning of year	266,312,103	264,382,823
Retained earnings – end of year:	<u>\$ 271,500,728</u>	<u>266,312,103</u>

See accompanying notes to financial statements.

STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM
(An Enterprise Fund of the State of Alaska)

Statements of Cash Flows

For the Years Ended June 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Loss from operations	\$ (4,250,518)	(6,123,236)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	18,494,628	17,406,247
Gain on sale of equipment	—	(9,550)
Bad debt expense	62,820	—
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	360,506	(719,833)
Accounts payable	(26,686)	422,448
Unearned revenue	(954,795)	(82,503)
Due to State of Alaska General Fund	3,758,136	7,002,179
Net cash provided by operating activities	<u>17,444,091</u>	<u>17,895,752</u>
Cash flows from capital and related financing activities:		
Payments of capital lease obligation	—	(210,812)
Payments of revenue bonds	(3,402,667)	(6,718,373)
Proceeds from bond anticipation notes	—	19,265,000
Payments of bond anticipation notes	—	(19,265,000)
Acquisition of property and equipment	(53,403,198)	(47,181,882)
Proceeds from the sale of equipment	—	9,550
Federal grants received	7,933,575	17,123,193
Interest paid on bond anticipation notes	—	(585,432)
Interest paid on bonds	(12,698,253)	(1,734,867)
Interest received on revenue bonds and bond anticipation notes	—	4,330,726
Proceeds from sale of bonds	25,000,000	179,500,000
Net cash provided by for capital and related financing activities	<u>(36,570,543)</u>	<u>144,532,103</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investment securities	118,483,090	1,069,186,236
Investment income received	12,750,287	5,487,155
Purchase of investment securities	(121,880,713)	(1,048,587,584)
Change in restricted cash and investments	8,652,034	(175,624,154)
Net cash used by investing activities	<u>18,004,698</u>	<u>(149,538,347)</u>
Net increase in cash and equivalents	(1,121,754)	12,889,508
Cash and equivalents, beginning of year	14,944,478	2,054,970
Cash and equivalents, end of year	<u>\$ 13,822,724</u>	<u>14,944,478</u>

See accompanying notes to financial statements.

**STATE OF ALASKA
INTERNATIONAL AIRPORT SYSTEM**

Notes to Financial Statements

June 30, 2000

(1) Organization

The accompanying financial statements include only the accounts of the State of Alaska International Airport System (System), an enterprise fund of the State of Alaska (State) created by Chapter 88 of the Session Laws of Alaska of 1961 to equip, finance, maintain, and operate the two international airports located at Anchorage and Fairbanks, Alaska. The airports are under the administration of the State of Alaska Department of Transportation and Public Facilities (DOT&PF). These financial statements are not intended to present complete financial activity of the State as a whole. The State's Comprehensive Annual Financial Report is available from the State's Division of Finance in the Department of Administration.

(2) Summary of Significant Accounting Policies

(a) *Governmental Accounting*

The accounting policies used in preparation of the financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governmental entities.

(b) *Basis of Accounting and Measurement Focus*

The accounting policies of the System are based upon accounting principles generally accepted in the United States of America as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The accounts of the System are reported using the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. Fund equity consists of contributed capital and retained earnings.

The System uses the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when incurred. Enterprise funds may elect to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, provided that such standards are not in conflict with standards issued by the Governmental Accounting Standards Board (GASB). The System has elected not to apply FASB pronouncements issued after November 30, 1989.

(c) *Annual Appropriated Budget*

The System has a legally adopted annual budget which is not required to be reported.

(d) *Management's Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

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Notes to Financial Statements

June 30, 2000

(e) Cash Equivalents

For purposes of the statements of cash flows, the System considers all highly liquid investments (excluding restricted assets) with a maturity of three months or less, when purchased, to be cash equivalents.

(f) Investments

The System accounts for marketable securities following guidance established by Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this method, investments in debt securities and certain equity securities are carried at fair value and unrealized gains and losses are recorded in the statement of operations.

(g) Accounts Receivable Allowance

Management has provided an allowance based on amounts recorded at year-end which may be uncollectable.

(h) Property and Equipment

Property and equipment is carried at cost, except property originally received from the federal government which is recorded at fair market value at the date contributed. Major additions and improvements to property and equipment are capitalized. Depreciation is provided over estimated useful lives using the straight-line method. Repair and maintenance costs are expensed as incurred.

The cost and accumulated depreciation of assets retired or sold are removed from the accounts and any gain or loss is reflected in operations in the year of disposition.

(i) Contributed Capital, Federal Aviation Administration

Federal Aviation Administration (FAA) grants, which are restricted for capital acquisition, are reported as contributed capital. Depreciation on these assets, using the straight-line method over the estimated useful lives of the assets, is transferred to the contributed capital account. Receivables from the FAA include unreimbursed costs expended under approved grants.

The System incurs costs on projects that have not been approved for reimbursement by the FAA and amounts in excess of grant awards on certain approved projects. Approximately \$7,300,000 of the FAA contributions recorded during the year end June 30, 2000 relate to costs in excess of approved grant awards. Management believes these amounts will be reimbursed by the FAA upon their approval of the grant award or modification but are treated as claims until FAA approval is received.

(j) Compensated Absences

Routine annual leave is paid by the System as used. Upon an employee's termination, the accumulated leave is paid by the State's General Fund. Each pay period, an amount equal to a percentage of payroll based on an estimate of accumulated leave that will be paid during the current fiscal year for all State employees is budgeted and transferred to the General Fund to cover the

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June 30, 2000

estimated accumulated leave that will be paid during the current year. The amount transferred to the General Fund amounted to \$544,133 and \$535,700 during 2000 and 1999, respectively.

(k) *Bond Issuance Costs, Bond Discounts and Refunding Transactions*

Bond issuance costs and bond discounts are deferred and amortized over the life of the related debt, except in the case of refunding debt transactions where the amortization period is over the term of the refunding or refunded debt, whichever is shorter.

(l) *Capitalized Interest*

Interest expense net of income earned on construction bond proceeds are capitalized during construction on those capital projects paid for from the bond proceeds and are being amortized over the depreciable life of the related assets on a straight-line basis. Capitalized interest net of related investment income totaled \$1,310,354 and \$0 during the years ending June 30, 2000 and 1999, respectively.

(m) *Due to State of Alaska General Fund*

The System uses the State of Alaska's central treasury for payments of current obligations. The obligations are settled monthly from the System's cash or investment accounts with the central treasury.

(n) *Leases*

The System leases substantially all terminal building space to airlines and concessionaires. All such leases have been treated as operating leases since ownership risks are retained by the System.

(o) *Environmental Costs*

The System expenses environmental assessment and clean-up costs as incurred. The costs are recoverable under the terms of the operating agreement (note 3) over twenty-five years.

(p) *Income Taxes*

The System qualifies for exemption from federal income taxes under current provisions of the Internal Revenue Code.

(3) *Airline Operating Agreement and Terminal Building Leases*

The DOT&PF, in connection with operating the Anchorage International Airport and the Fairbanks International Airport (Airports), has executed airline operating agreements and terminal building leases (Agreements) with substantially all regularly scheduled airlines who utilize its facilities. The Agreements are effective July 1, 1990 for a five-year period and have been extended for another five-year period.

The Agreements were mutually negotiated by DOT&PF and the airlines to establish procedures for periodic setting of rents and fees. The Agreements were consummated in order to set forth rights, privileges and obligations of the parties and to facilitate the development, promotion and improvements of air transportation. The rents and fees calculated, according to the Agreements, are airline terminal building

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rental rates, landing fees, international terminal docking fees, passenger loading bridge fees, and charges relating to federal inspection services. The Agreements also establish procedures for review and adjustment of airline rents and fees for each fiscal year to insure that revenues are sufficient to meet operations and maintenance expense, debt service requirements of the revenue bonds and other funding requirements established by the resolution authorizing issuance of the revenue bonds.

The Agreements further provide for the payment of a fuel flowage fee of \$.02 per gallon for fuel purchased at the Airports. For users of the Airports who have not signed the Agreements, the fuel flowage fee is \$.023 per gallon.

The Agreements allow that revenues may be retained up to the following amounts:

- An amount necessary to satisfy debt service requirements due during the fiscal year on all outstanding bonds.
- An amount to maintain a balance equal to maximum annual debt service on all uninsured outstanding bonds.
- An amount to maintain a repair and replacement allowance of \$2 million (which is subordinate to the bond resolution requirement of \$500,000 – note 6).
- An amount equal to one quarter of the annual budget for the operation and maintenance of the Airports.
- An amount not to exceed \$25 million in excess of the amounts required to fund capital improvement projects designated for funding from the International Airport Revenue Fund.
- An amount not to exceed \$10 million at June 30, 2000 to be designated as a development fund.

Any funds in excess of these amounts are to be used to reduce the landing fees in the following year, unless 67% of signatory airlines agree to an alternate use. Although the Agreements effective July 1, 1990 are currently expired, the parties have agreed to adhere to these agreements until new agreements can be formalized. The new agreements are expected to be agreed upon by the end of October and in place by January of 2001.

(4) Deposits and Investments

The System's investments are controlled by the State Treasury Division of the Department of Revenue (Treasury) pursuant to AS 37.10.070 and AS 37.10.071 which mandates that investments shall be made with the judgement and care exercised by an institutional investor of ordinary professional prudence, discretion and intelligence. Separate audited combined financial statements are available from Treasury which include investment policies for each fund.

The objectives of the State's investment policy are to maximize the preservation of principal, avoid residual risks, minimize credit and market risks, concentrate on large yet very marketable issues, and seek to achieve a relatively high but nonvolatile investment return within a fiscal year. The current investment policy limits the investments to nonresidual, fixed income obligations.

All deposits are insured or collateralized with securities held by the State or by its custodian in the State's name. All investments are insured or registered in the State's name and are held by the State or its

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custodian. This arrangement results in Category 1 safekeeping risk, the lowest safekeeping risk classification as defined by the Governmental Accounting Standard Board (GASB) Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

Deposits and investments at June 30 consisted of the following:

	<u>2000</u>	<u>1999</u>
Deposits:		
Cash in banks and State Treasury	\$ <u>13,822,724</u>	<u>14,944,478</u>
Investments:		
U.S. Agency debt	\$ <u>72,940,216</u>	<u>69,442,593</u>

(5) Restricted Cash and Investments

The System is required to maintain various restricted funds in compliance with the resolution authorizing issuance of its revenue bonds. The purpose of these funds are as follows:

- The International Airport Revenue Fund (IARF) is the primary fund. All receipts, excluding bond proceeds and interest on construction funds, must be deposited into the IARF and are irrevocably pledged to the payment of (1) debt service, (2) operating and maintenance expenses, or (3) additions or improvements to airport facilities.
- The repair and replacement account may be used (1) to eliminate deficiencies in the bond reserve accounts; or (2) for extraordinary repairs, renewals and betterments in the event surplus revenues are not available.
- The Terminal Redevelopment Fund accounts for all bond proceeds, interest earned on bond proceeds and construction activity related to the System's terminal redevelopment project.
- The revenue bond redemption fund is composed of bond interest and principal retirement accounts held by the bond trustee (Trustee) and may be used only for debt service. These reserve accounts were initially established from proceeds of revenue bonds and are to be subsequently maintained by transfers from the revenue fund in amounts sufficient to provide for annual debt service requirements. There is no bond reserve fund because at issuance of the Series A, B, C, H and I bonds' insurance was purchased in lieu of funding a reserve fund in accordance with amended bond resolutions.

Under the terms of the revenue bonds, all funds held by the Trustee in the revenue bond redemption fund must be held in time or demand deposits in any bank or trust company authorized to accept deposits of public funds (including the Trustee), direct obligations of the United States of America, bonds, notes or other indebtedness, deposit accounts, commercial paper, money market funds, or obligations the principal of and interest on which are guaranteed by the United States of America, maturing prior to the respective interest payment dates, maturity dates or minimum sinking fund payment dates on which such moneys are required to be paid out thereunder.

All deposits are insured or collateralized with securities held by the State or its custodian in the State's name. All investments are insured or registered in the State's name and are held by the State or its

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custodian. These arrangements provide for the lowest safekeeping risk classification as defined by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

Restricted cash and investments at June 30 consisted of the following:

	<u>2000</u>	<u>1999</u>
Repair and replacement account:		
U.S. Treasury Bill	\$ 500,000	489,840
Cash in banks and State Treasury	—	60,006
	<u>\$ 500,000</u>	<u>549,846</u>
Terminal redevelopment funds:		
Marketable debt securities	\$ 129,728,226	123,858,305
Cash in banks and state treasury	39,560,534	52,290,336
	<u>\$ 169,288,760</u>	<u>176,148,641</u>
Revenue bond redemption fund:		
Bond interest:		
Daily money fund	\$ 1,032,145	990,488
Bond principal:		
Daily money fund	\$ 1,135,000	3,210,000

(6) Property and Equipment

Airport property was owned by the federal government prior to statehood and contributed to the State after that date. Subsequent additions to property and equipment have been funded by governmental contributions, bond proceeds and operating revenues.

The following is a summary of property and equipment at June 30:

		<u>Value</u>	
	<u>Life</u>	<u>2000</u>	<u>1999</u>
Land		\$ 25,501,840	25,145,806
Land improvements	5 to 40 years	314,492,016	289,166,883
Buildings	10 to 40 years	211,008,209	219,513,185
Equipment	5 to 10 years	33,768,236	30,311,377
		<u>584,770,301</u>	<u>564,137,251</u>
Accumulated depreciation and amortization		<u>265,338,107</u>	<u>248,168,525</u>
Construction in progress		61,080,688	28,307,974
		<u>\$ 380,512,882</u>	<u>344,276,700</u>

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Notes to Financial Statements

June 30, 2000

(7) Revenue Bonds Payable

During October 1999, the System issued \$25,000,000 of the Series C revenue bonds to finance the System's share of Terminal Redevelopment Project (note 12) costs.

The following is a summary of State of Alaska International Airport System Revenue Bonds payable at June 30:

	<u>2000</u>	<u>1999</u>
Series H, maturing in annual installments of increasing amounts through October 1, 1999; interest payable semi-annually at 3.7% to 4.4%	\$ —	2,130,000
Series I, maturing in annual installments of increasing amounts through October 2, 2009, with a \$13,530,000 term bond due October 1, 2015; interest payable semi-annually at 3.9% to 5.5%	28,040,000	29,120,000
Series A, maturing in annual installments of increasing amounts through February 10, 2025; interest payable semi-annually at 4.0% to 5.125%	162,500,000	162,500,000
Series B, maturing in annual installments of increasing amounts through February 10, 2025; interest payable semi-annually at 4.0% to 5.125%	16,675,000	16,675,000
Series C, maturing in annual installments of increasing amounts through October 1, 2024; interest payable semi-annually at 4.85% to 6.22%	<u>25,000,000</u>	<u>—</u>
Total	232,215,000	210,425,000
Less unamortized bond issuance costs and discounts	<u>(4,439,214)</u>	<u>(4,246,547)</u>
	227,775,786	206,178,453
Less amount payable with restricted assets	<u>(1,135,000)</u>	<u>(3,210,000)</u>
Long-term portion	<u>\$ 226,640,786</u>	<u>202,968,453</u>

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Notes to Financial Statements

June 30, 2000

The following is a summary of debt payment requirements for each of the next five years and thereafter, including early redemptions of term bonds as of June 30, 2000:

Year ending June 30:	Principal	Interest	Total
2001	\$ 1,135,000	11,613,283	12,748,283
2002	3,660,000	11,557,172	15,217,172
2003	6,300,000	11,384,019	17,684,019
2004	6,580,000	11,110,903	17,690,903
2005	6,865,000	10,823,983	17,688,983
Thereafter	207,675,000	122,209,748	329,884,748
	<u>\$ 232,215,000</u>	<u>178,699,108</u>	<u>410,914,108</u>

Revenue bonds have been issued pursuant to bond resolutions which prescribe the use of accounts described at note 2 as well as the use of certain other practices. Among these is a requirement that net revenues available for debt service, as defined by the Resolution, must at least equal 1.25 times the sum of (1) annual debt services and (2) required deposits to the bond redemption fund. The revenue requirement was met for the years ended June 30, 2000 and 1999.

(8) Contributed Capital

During the years ended June 30, 2000 and 1999, the changes in contributed capital were as follows:

	2000	1999
Balance July 1	\$ 123,814,435	110,157,045
Contributed capital – federal grants	4,249,782	19,427,277
Amortization of contributed assets	(6,566,669)	(5,769,887)
Balance June 30	<u>\$ 121,497,548</u>	<u>123,814,435</u>

(9) Cost Allocated from the Department of Transportation and Public Facilities (DOT&PF)

DOT&PF provides administrative and technical services benefiting all of Alaska's airports and aircraft bases. Related costs are allocated based upon budgetary estimates of the pro rata portion which should be borne by the various facilities as set forth in the annual appropriation and budget document of the State. Costs allocated to the System and included in operating expenses for the years ended June 30, 2000 and 1999 amounted to \$1,007,800 and \$681,400, respectively. The increase in these costs for the year ending June 30, 2000 relate to a reorganization of DOT&PF that includes the fiscal office in the Anchorage International Airport's allocated costs. Capital project management services are performed by DOT&PF personnel and are capitalized to property and equipment. DOT&PF implemented an indirect cost allocation whereby charges for overhead costs in support of capital project management personnel are allocated to the System capital projects and are also capitalized to property and equipment. The indirect costs allocated to the System and capitalized in construction in progress amounted to \$740,996 and \$451,507 during the years ending June 30, 2000 and 1999, respectively.

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Notes to Financial Statements

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(10) Retirement Plan

The System follows the provisions of the Governmental Accounting Standards Board Statement No. 27 (GASB 27), Accounting for Pensions by State and Local Governmental Employers. Specific information related to the System, its employees and contributions is commingled with other State of Alaska information by PERS, which treats the State of Alaska as one employer.

(a) Plan Description

The System contributes to the State of Alaska Public Employees; Retirement System (PERS), a defined benefit, agent multiple-employer public employee retirement system which was established and is administered by the State of Alaska (State) to provide pension, postemployment healthcare, death and disability benefits to eligible employees. All full-time System employees are eligible to participate in PERS. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99611-0203 or by calling (907) 465-4460.

(b) Funding Policy and Annual Pension Cost

Employee contribution rates are 6.75% for employees, as required by State statute. The funding policy for PERS provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The System's rates were 8.13% and 8.51% of covered salary expenses in the years ending June 30, 2000 and 1999, respectively.

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The System's annual pension cost for the current year and the related information is as follows:

	<u>Pension</u>	<u>Postemployment healthcare</u>
Contribution rates:		
Employee	4.92%	1.83%
Employer	5.92%	2.21%
System annual covered payroll	\$19,143,774	\$19,143,774
Annual pension cost	\$2,076,284	\$773,137
Contributions made		
Employee	\$941,874	\$350,331
Employer	\$1,134,410	\$422,806
Actuarial valuation date	June 30, 1997	Same
Actuarial cost method	Projected unit credit	Same
Amortization method	Level dollar, open	Same
Amortization period	Rolling 25 years	Same
Asset valuation method	5-year smoothed market	Same
Actuarial assumptions:		
Inflation rate	4.0%	Same
Investment return	8.25%	Same
Projected salary increase:		
Inflation	4.0%	N/A
Productivity and merit	1.5%	N/A
Health cost trend	N/A	5.5%

In the current year, the System determined, in accordance with provisions of GASB 27, that no pension liability (asset) existed to PERS and there was no previously reported liability (asset) to PERS.

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Notes to Financial Statements

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Required supplementary information – Schedule of Funding Progress for PERS (in thousands) for the State of Alaska:

<u>Actuarial valuation date</u>		<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Excess of assets over AAL (a) – (b)</u>	<u>Funded ratio (a) / (b)</u>	<u>Covered payroll (c)</u>	<u>Excess as a percentage of covered payroll ((a) - (b)) / (c)</u>
Pension:							
June 30, 1999	\$	2,725,541	2,610,855	114,686	104%	\$ 640,906	18%
June 30, 1998		2,589,491	2,538,706	50,785	102%	622,044	8%
June 30, 1997		2,373,122	2,281,287	91,835	104%	617,556	15%
Postemployment health:							
June 30, 1999		1,104,905	1,058,412	46,493	104%	640,906	7%
June 30, 1998		1,032,722	1,012,469	20,253	102%	622,044	3%
June 30, 1997		884,487	850,259	34,228	104%	617,556	6%

Ten-year historical trend information showing PERS progress in accumulating sufficient assets to pay benefits when due is presented in PERS' June 30, 1999 comprehensive annual report.

(11) Rental Income under Operating Leases

The System's leasing operations consist of leasing land, buildings and terminal space to airlines and other tenants.

The following is a schedule of minimum future rental income payments under noncancelable operating leases for each year for the next five years as of June 30, 2000:

<u>Year ending June 30:</u>	
2001	\$ 4,614,606
2002	1,542,636
2003	786,766
2004	786,766
2005	776,699

These amounts do not include contingent fees, which may be received under certain leases that involve a concession fee based upon gross receipts. Contingent fees amounted to \$2,306,197 in 2000 and \$4,260,494 in 1999. The above schedule includes minimum guaranteed rentals only to the extent of the remaining term of noncancelable leases.

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June 30, 2000

(12) Terminal Redevelopment Project

During fiscal 1999, the Alaska State Legislature approved \$204,175,000 in bond authorization for the Anchorage Internal Airport Terminal Redevelopment Project. The total estimated budget for the project is \$230,000,000. Additional funding will be obtained from other sources including the Federal Aviation Administration and the Federal Highway Administration. Contracts entered into for this projected totaled approximately \$98,544,000 as of June 30, 2000 and \$36,309,000 as of June 30, 1999.

(13) Contingencies

In the normal course of its activities, the System is involved in the defense of various claims and litigation. There were no pending or threatened litigation, claims, assessments or governmental investigations including environmental clean-up actions against the System as of June 30, 2000 and 1999 that would have a material adverse effect on the financial position, results of operations or liquidity of the System.

The System's leases with its tenants include provisions requiring the tenant to indemnify the System for any damage to property or losses to the System as a result of the tenant's operations. Accordingly, in the opinion of management, any tenant environmental remediation plans and final disposition are not expected to have a material adverse effect on the financial position, results of operations or liquidity of the System.

The System participates in the State of Alaska's risk management and self-insurance program for property, casualty and workers' compensation and specialty coverages. The Division of Risk Management (Risk Management) acts as the insurance carrier for each State agency, funding all sudden and accidental property and casualty claims. Risk Management allocates annual premiums to each State agency through a cost of risk premium allocation system. Risk Management has purchased excess insurance coverage to maintain the self-insurance risk at an acceptable level for the State.